

**STATE INVESTMENT COMMISSION
MINUTES
JUNE 8, 2004**

The State Investment Commission ("the Commission") was called to order by Acting Chairman Jonathan Miller, State Treasurer, at 2:20 p.m. in the offices of King and Company PSC in Louisville, Kentucky. Other members present were Robbie Rudolph, Secretary, Finance and Administration Cabinet and Jim King, King and Company.

Treasurer Miller confirmed that a quorum was present and that the press had been notified of the meeting.

A motion was made by Mr. King and seconded by Secretary Rudolph to approve the minutes of the March 8, 2004 meeting. **Motion CARRIED.**

Mr. Dwight Price, portfolio manager, Office of Financial Management, gave an update on the Commonwealth's portfolio. Mr. Price stated that balances have been relatively stable because all General Fund accounts have been moved to the Short Term pool. He continued that portfolios have lost money on a mark-to-market basis because the market declined during the spring. Mr. Price continued that the financial markets expect the Federal Reserve to increase the Fed Funds rate by 100 basis points by the end of the current year. Mr. Price suggested the increase would occur at the June, August November and December meetings by 25 basis points at each meeting.

Treasurer Miller asked if the lack of a legislatively enacted budget would have any impact on the Commission. Mr. Price responded that salaries and expenses for this department are off-budget items, funded with by a 5 basis point fee on assets managed, which would not have any affect on staff or the Commission. Mr. Price stated that the only affect that the lack of a budget would have is that less money would be spent by state agencies resulting in an increase in the funds to be managed.

Mr. Steve Jones, portfolio administrator in the Investment Section of the Office of Financial Management, discussed the effect of market conditions on the anticipated TRAN to be issued. Mr. Jones noted that market conditions were improving and that the transaction may produce a benefit of as much as \$2.9 million on a \$500 million issuance, net of cost, to the Commonwealth.

Treasurer Miller introduced Resolution 2004-01, which addressed the credit ratings of securities held by the Commonwealth. Mr. Price explained that Resolution 2004-01 addresses the issue of when to sell a security. Mr. Price explained that 200 KAR 14:011 states that securities that are purchased for the Commonwealth must be rated at least A by one of the three rating agencies. Mr. Price pointed out that the regulation does not address when the security should be sold if the rating drops below A. Mr. Price stated that Resolution 2004-01 allows staff 90 days to sell a security if the rating should drop below A. Mr. Price indicated that the Resolution had been revised since the March meeting to reflect the concerns that members had at that time and that each member had an opportunity to review the Resolution before the meeting.

A motion was made by Mr. King and seconded by Secretary Rudolph to adopt Resolution 2004-01. Motion carried and **RESOLUTION 2004-01 was adopted.**

Treasurer Miller introduced Resolution 2004-02 approving the broker/dealer list for fiscal year 2005.

Mr. Price explained that each year at the June meeting the broker/dealer list is presented to the Commission members for approval. Mr. Price indicated that there was one addition to the list and that was Hilliard Lyons, a Kentucky broker. Mr. King asked why Banc One was on the list since J. P. Morgan Chase has purchased the firm. Mr. Price explained that the purchase was not complete. Treasurer Miller asked if staff was aware of various scandals that affected certain brokers. Mr. Price assured the Commission members that staff pays monitors these types of situations.

Mr. Jones informed the Commission that his wife works for Hilliard Lyons as a portfolio manager in the trust division. Mr. Jones further stated that she would receive no benefit, financial or otherwise, from the establishment of a relationship with Hilliard Lyons or from any subsequent business with Hilliard Lyons.

A motion was made by Secretary Rudolph and seconded by Jim King to adopt Resolution 2004-02 approving the Broker/Dealer list for Fiscal year 2005. Motion carried and **RESOLUTION 2004-02 was adopted.**

With no further business before the Commission, the meeting was adjourned.

Respectfully submitted,

George R. Burgess, Jr.
Secretary